



MANAPPURAM[®] FINANCE LIMITED



Make Life Easy

Ref: Sec/ SE/374/16-17
19th July 2016

Bombay Stock Exchange Ltd.,
PhirozeJeejeebhoy Towers
Dalal Street
Mumbai- 400001

National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (East),
Mumbai-400051

Dear Sir/Madam,

Sub: ICRA has upgraded our Long Term Credit Rating

We are glad to inform you that in furtherance to the CRISIL rating upgradation, ICRA has also upgraded the long-term rating for the Rs. 192.97 crore NCD programmes of the Company to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus); and reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500.00 crore in respect of commercial paper programme of the company.

This is attributed to the Company's improved business risk profile following its shift to shorter-tenure loans, the stability in the gold loan business pursuant to the various regulatory steps over the past few years, as well as the company's comfortable capitalisation profile (consolidated gearing at 3.5 times as on March 31, 2016).

The detailed ICRA rating rationale issued in July 2016 is attached

Request you to take the same on your record.

Thanking You

Your Faithfully

For Manappuram Finance Limited

Ramesh Periasamy
Company Secretary



India's First Listed and Highest Credit Rated Gold Loan Company

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Manappuram Finance Limited

Instrument	Amount in Rs. Crore ¹	Rating Action
Non-Convertible Debentures	149.33 ^[a]	[ICRA]AA-(stable); upgraded from [ICRA]A+(stable)
Non-Convertible Debentures	43.64 ^[b]	[ICRA]AA-(stable); upgraded from [ICRA]A+(stable)
Commercial Paper Programme	500.00	[ICRA]A1+; reaffirmed
Short-term Fund-based Facilities	1,524.00	[ICRA]A1+; withdrawn

^[a]reduced from Rs. 200.00 crore ^[b]reduced from Rs. 223.00 crore

ICRA has upgraded the long-term rating for the Rs. 192.97 crore NCD programmes of Manappuram Finance Limited (MAFIL) to [ICRA]AA- (pronounced ICRA double A minus)² from [ICRA]A+ (pronounced ICRA A plus); and reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500.00 crore commercial paper programme of the company. ICRA has also withdrawn the rating of [ICRA]A1+ outstanding on the Rs. 1,524 crore short-term fund based facilities of the company, which was put on notice for withdrawal in January 2016.

The revision in the long term rating factors in MAFIL's improved business risk profile following its shift to shorter-tenure loans, the stability in the gold loan business pursuant to the various regulatory steps over the past few years, as well as the company's comfortable capitalisation profile (consolidated gearing at 3.5 times as on March 31, 2016).

The ratings continue to factor in the company's track record in the gold loan business, its good internal controls and audit systems, and its comfortable liquidity profile on the back of short tenured assets and, sizeable un-utilized bank lines (~Rs.1,500 crore as on March 31, 2016). The ratings however remain constrained on account of the company's concentration on gold loan segment making it vulnerable to adverse movements in gold prices, its marginal borrower profile and geographically concentrated operations (southern states constituting about 65% of portfolio) notwithstanding the improvement witnessed over the last 3-4 years. ICRA nevertheless takes note of the improved and a stable regulatory environment for gold loan companies currently, which is expected to support a steady and sustainable business growth. MAFIL's ability to improve its operating efficiencies by achieving optimal business growth amidst a competitive business environment would be a key rating sensitivity.

MAFIL has taken several initiatives in recent years to de-risk its gold loan portfolio from gold price volatility. The company has been gradually shifting towards shorter tenure gold loan products (3, 6 and 9 month tenure as against 12 months tenure earlier); the share of 3-month loans increased during the last financial year and stood at about 80% of the total disbursements in Q4FY2016 as compared to 44% in Q4FY2015. From April 2016, all incremental loans have been of tenure of 3 months. The shift towards shorter tenure loans along with tighter collections (with an effort to collect interest on a monthly basis) and prompt auctioning procedures (gold is now auctioned within 5-6 months, from the loan origination date, for 3 month tenure loans rather than 14-16 months earlier for 12 month tenure loans) is likely to reduce the impact of unfavourable gold price movements on the overall credit risk profile of the company. So far, the shift in loan tenures have not had an adverse impact on the company's gold loan portfolio growth, which was about 12% during FY2016 against CAGR of 6.6% during the five year period ending FY2016. ICRA takes note of the steady increase in the share of loan renewals³ post the contractual maturity (upto 3 months from the maturity month), which stood at about 53% (about 46% of the loans were closed) for Q4FY2016 as compared to 19% (about 70% of the loans were closed) for Q4FY2015. ICRA also notes that the trend in fresh disbursements has been largely stable with about 89-90% being extended to existing customers (loan renewals and fresh loans) and the remaining to new customers. Going forward, it would be critical for the company to retain its customers and attract fresh customers, to grow its portfolio at an optimal rate in view of its shorter tenure loan offerings.

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 lakh

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

³ after payment of interest accrued

ICRA takes note of the company's initiatives to diversify its product portfolio to include segments like vehicle finance, loan against property, home finance (through Manappuram House Finance Private Limited; wholly owned subsidiary) and microfinance (through Asirvad Microfinance Private Limited; 90% subsidiary of MAFIL). While the total non-gold portfolio contributed to 12% of the company's total consolidated portfolio of Rs. 11,433 crore as of March 31, 2016, the same is expected to increase to 20-25% by March 2018. ICRA takes note of the proposed aggressive expansion plans in the microfinance segment over the next two years at a CAGR of 55-65% through better penetration in the existing branches, and expansion to new geographies. Given MAFIL's comfortable capitalisation currently, it may not require any significant capital infusion over the next 20-24 months to fund its overall consolidated portfolio growth targets. However, ability of MAFIL to demonstrate a profitable growth in the new product segments, without adversely impacting the asset quality profile would be also be a key rating sensitivity.

MAFIL's 90+ dpd reduced from 6.53% as on March 31, 2015 to about 1.41% as on March 31, 2016. ICRA notes that the company's softer bucket delinquencies (0-60 days) could witness an increase following the complete transition to 3-month loans; slippages to harder buckets is expected to be limited as the company undertakes prompt recoveries and auctions on the overdue contracts.

MAFIL's return on average assets improved to 2.9% in FY2016 as against 2.4% in FY2015 aided by an improvement in the business yields and reduction in overall cost of funds. ICRA expects the incremental credit costs in the gold loan segment to remain within reasonable levels following the initiatives to de-risk the same; however, its ability to control credit costs in the other new segment remains to be seen. Further, MAFIL's ability to grow the gold loan segment at an optimal pace with the existing branch network to improve its operating efficiencies (operating expenses as a % of average managed assets was high at 6.7% for FY2016) would be critical from a profitability perspective.

Company Profile

Manappuram Finance Limited (MAFIL), the flagship company of the Manappuram group, is a Thrissur (Kerala) based non-deposit taking, systemically important non-banking finance company (ND-NBFC-SI), and lends primarily against gold ornaments. The promoter Mr. V.P. Nandakumar and his family members held 33.7% stake in the company as on March 31, 2016, with the rest of the shareholding being with foreign institutional investors (40.4%), domestic institutional investors (7.3%) and public (18.6%). As on March 31, 2016 the company had a total managed gold loan portfolio of Rs. 10,081 crore and operated out of a network of 3,293 branches and 1.93 million customers. The company had a net worth of Rs. 2,737 crore, gearing of 2.9 times and reported gross NPAs of 1.0% (based on 120+ dpd) as on March 31, 2016.

The company has two wholly owned subsidiaries, Manppuram Housing Finance Private Limited with portfolio size of Rs. 129 crore as on March 31, 2016 and Manappuram Insurance Brokers Private Limited. As on March 31, 2016, the company held 90.4% stake in its subsidiary Asirvad Microfinance Private Limited (rated [ICRA]A-(stable)) with a total microfinance portfolio size of Rs. 998 crore.

Recent Results

As per standalone audited financials for the year ended March 31, 2016, MAFIL reported net profit of Rs. 337 crore on a managed asset base of Rs. 11,911 crore as compared to a profit of Rs. 271 crore on a managed asset base of Rs. 11,332 crore in the previous financial year.

As per consolidated audited financials for the year ended March 31, 2016, MAFIL reported net profit of Rs. 353 crore on a managed asset base of Rs. 12,839 crore as compared to a profit of Rs. 271 crore on a managed asset base of Rs. 11,616 crore in the previous financial year.



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